

DCMC-OG

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION AND TECHNOLOGY)  
PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE (ACQUISITION AND TECHNOLOGY)  
DIRECTOR, DEFENSE PROCUREMENT  
DEPUTY UNDER SECRETARY OF DEFENSE (ACQUISITION REFORM)  
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)  
ASSISTANT SECRETARY OF THE ARMY (RESEARCH, DEVELOPMENT AND ACQUISITION)  
ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT AND ACQUISITION)  
ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)  
DIRECTOR, BALLISTIC MISSILE DEFENSE ORGANIZATION  
THROUGH: DEFENSE CONTRACT MANAGEMENT  
COMMAND-D

SUBJECT: First Monthly Activity Report for Management Reform Memorandums (MRM) 5, 10, and 12

Forwarded for your review is the first monthly activity report for MRM 5, 10, and 12. The report is intended to keep you apprised of these high visibility programs along the lines of the monthly Single Process Initiative (SPI) report. This first report contains the history, goals, team members and current status of each of the MRMs. Future reports will focus on current status.

Should you have any questions or concerns regarding information contained in the attached report, please contact MRM 5 Ms. Janice Hawk (703) 767-3433, MRM 10 Ms. Ella E. Studer (703) 767-3398 and MRM 12 Mr. Paul Sabatini, (703) 767-3760.

HENRY T. GLISSON  
Lieutenant General, USA  
Director

Attachment

cc:  
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**Management Reform Memorandum #5 (MRM #5)**  
**Disposal of Excess Government-Owned Property**  
**Monthly Report**  
**Period Ending December 31, 1997**

**Background**

- Deputy Secretary of Defense, Dr. Hamre issued MRM #5 on May 21, 1997 and tasked the Defense Contract Management Command (DCMC) to lead the Department of Defense (DoD) team (consisting of the Military Departments) to dispose of excess and underutilized property in the possession of defense contractors by January 1, 2000.
- Team members are as follows:
  - Janice Hawk, DLA-AQO, Team Leader
  - Edward Augustine, OSD Comptroller
  - John Berg, HQ AFMC/PKPA
  - Martha Caswell, GSA
  - Sherry Conner, GSA
  - Kate Drost, DLA, General Counsel
  - Paul Farley, DLA-AQO
  - Ronald Hodges, DoDIG
  - Robert Johnson, OASN(RDA) ABM
  - Eric Kattner, SAF/AQCP
  - Robert Keri, DCAA
  - Rachel Lilley, OASA(RDA)
  - Herbert Marr, USAMSAA
  - Tom Ruickdaschel, DLA-MMLC
  - Nancy Wong, GSA
- MRM #5 team determined classes of property material (GFM and contractor acquired), special tooling, special test equipment and equipment) to be examined and set review universe to include all contracts with over \$3M of government property.
- Approximately 1300 contracts will be reviewed encompassing \$41 Billion in government property (breakout below):

<u>Reviewer</u>	<u>Contracts</u>	<u>Contractors</u>	<u>Where Is It</u>
Army	89	80	Ammo plants, bases
Navy	105	51	Shipyards, colleges
Air Force	57	51	Bases
DCMC Offices	1046	347	Contractor facilities

- AUSD (A&T) Mr. Longuemare issued a Memorandum to the Secretaries of the Military Departments and Directors of Defense Agencies on September 25, 1997 that included a Disposition Review Plan for all Program Managers (PMs), Property Managers, Procuring Contracting Officers (PCOs), Contract Administration Offices (CAOs) and Defense Contractors to follow.
- Implementation plans were sent out by the Army (Dr. Oscar) on October 23, 1997, the Navy (RADM (Sel) Ginman) on October 14, 1997, the Air Force (Mr. Evey) on October 8, 1997 and DCMC (BG Malishenko) on October 8, 1997.

- DCMC provided training to reviewers September 1997
- All involved defense contractors notified in Oct/Nov 1997

### **Goals**

- Goal #1: By June 30, 1998, review 100% of the 529 contractors' systems with contracts having more than \$3M of government property.
  - reviews to be performed by Government personnel (i.e. property administrators)
  - review to examine contractor's property control procedures
  - review to examine reporting of excess
  - updates to OSD are reported monthly
  - 28 reviews were completed as of December 31, 1997
- Goal #2: Increase disposition of excess government property by 20% per year in fiscal year 98 and 99 for a total disposition of \$7 Billion by December 31, 1999.
  - updates to be reported quarterly
  - \$613,300,853 dispositioned during 1<sup>st</sup> quarter FY 98
  - also tracking property reported into the disposition process to look at trend analysis
  - \$649,889,550 reported into the process during the 1<sup>st</sup> quarter of FY 98

### **Other Disposal Options**

- Team also examined and recommended other disposal options to improve the disposition process.
  - Proceeds from sale (Navy lead)
    - Currently proceeds can be returned to price or cost of contract
    - Legislative initiative to return proceeds to price or cost of program – turned down by Comptroller, team to discuss alternatives
  - GSA Screening Initiatives (DCMC lead)
    - Waiver GSA screening for special test equipment without standard components – request sent to DDP on 12-30-97
    - Waive GSA screening for property in poor and salvage condition – request sent to DDP on 12-30-97
    - Waive GSA screening for property in scrap condition - request sent to DDP on 12-30-97
    - Waive GSA screening days from 60 to 36 – request sent to DDP on 12-30-97
  - Sale by Auctions, Spot Bid or Retail Sale (Army lead)
    - DFARS case submitted to change DFARS 245.7301(c) on 1-16-98
    - DFARS case assigned (98-D004)
  - Demilitarization (Air Force lead)
  - Working with DoD Program Manager to better define special tooling demil code – next meeting set for 2-6-98

**Management Reform Memorandum # 10 (MRM # 10)**  
**REDESIGNING DEPARTMENT OF DEFENSE SOURCE ACCEPTANCE POLICIES**  
**AND PROCEDURES**  
**Monthly Report**  
**PERIOD ENDING JANUARY 30, 1998**

**BACKGROUND**

- PAT created per OUSD(A&T) memo of 20 Mar 97, subject: Micro-Purchases
  - Task 1: increase purchase card use for commercial, micro-purchases
  - Task 2: eliminate unnecessary government source inspection (GSI) for micro-purchases, all items
- PAT's focus broadened by Management Reform Memorandum (MRM) #10, Redesigning DoD Source Acceptance Policies and Procedures
  - Complete reassessment of source acceptance policies, procedures
  - Account for all government steps, costs in the source acceptance process, then compare them to alternative methods
  - Review existing stock items designated for source acceptance to discover whether they still merit that designation.
- PAT further directed by Dr. Hamre during Status up date
  - Make sure items entering supply system are not "over-coded" for GSI
  - Add checks/balances to the system that might supplant need for GSI
  - Develop DCMC models to reduce oversight when GSI is necessary

**TEAM MEMBERS**

Bates, Charles	DSCR-VC	(804) 279-3598/f-6142	cbates@dscr.dla.mil
Block, Charlotte	DCMDI-O	(703) 767-2474/f-2790	charlotte_block@hq.dla.mil
Claypool, Michael	DoDIG (audit)	(703) 604-9291	mclaypool@dodig.osd.mil
Curci, Vito	NAVICP-PHL	(215) 697-4234/f-2524	vito_curci@icpphil.navy.mil
DeCoste, Debbie	DMCDE	(617) 753-3407/f-4336	bot6361@dcrb.dla.mil
Dilizio, Steve	DPSC-OMPT	(215) 737-7366/f-7463	sdilizio@dpsc.dla.mil
Douglas, Lois	OUSD-C	(703) 767-697-9708/f-2726	douglasl@ousdc.osd.mil
Garner, Calvin	SAF/AQRE	(703) 695-4976/f-697-4936	garner@af.pentagon.mil
Gilbert, John	DSCR-JFTA	(804) 279-5827/f-4204	jgilbert@dscr.dla.mil
Goldstein, Steve	AMCRDA-AI	(703) 617-9623/f-2235	sgoldstein@hqamc.army.mil
Grothues, Eric	ASN (RDA)	(703) 602-2165/f-3129	grothues.eric@hq.navy.mil
Kinslow, Jennifer	MARCORSYS COM	(703) 784-5822x247/f-5826	kinslowj@quantico.usmc.mil
LeBold, Charles (Chuck)	DISC-AETQ	(215) 697-5873/f-6556	clebold@discg1.disc.dla.mil
Lieb, Dennis	DSCC-BDT	(614) 692-1692/f-4531	dennis_lieb@dsccl.dla.mil
Loper, Steve	DSCC-CECK	(614) 692-7658/f-6909	steven_loper@dsccl.dla.mil
McKinney, Terry	DoDIG (audit)	(703) 604-9288	tmckinney@dodig.osd.mil
Mitchell, Fran	HQ Marines	(703) 696-1018/f-1016	mittchellf@hq.usmc.mil
Plasters, Greg	DFAS HQ/FCC	(703) 607-0862/f-2129	gplasters@cleveland.dfas.mil
Rice, Duane	DLSC-LEQ	(703) 767-2634/f-2628	duane_rice@hq.dla.mil
Riddle, Ralph	DSCR-RZS	(804) 279-3237/f-4392	rriddle@dscr.dla.mil
Shields, Larry	DCMDW	(310) 335-4215/f-4267	Lshields@link.dcmdw.dla.mil

Shields, Mike	DLSC-LEQ	(703) 767-2629	michael_shields@hq.dla.mil
St. Clair, Michael	DCMCWichita	(316) 676-8145/f-9717	mst.clair@gw-link.dcmdc.dla.mil
Studer, Ella	DCMC-AQOG	(703) 767-3398/f-3377	ella_studer@hq.dla.mil
Treadwell, Greg	AFMC/ENPP	(DSN) 787-6204/f-0841	jtreadwe@wpgate1.wpafb.af.mil
Zelenak, Maryann	AFMC/ENPP	(DSN) 787-6096/f-0841	zelenama@wpgate1.wpafb.af.mil

## **GOALS**

- Review Policies and Procedures – On Going
  - Six Month Consultant Study
    - Models/Report due February 27, 1998
    - Review Results and Plan Actions April 30, 1998
- Review FY98/99 Supply Item Procurements Requiring GSI
  - Complete Review March 31, 1999
  - Agency Action Plans – Completed -November 15, 1997
  - Quarterly Progress Reports – First Report due April 15, 1998
- Review Process to Ensure New Items Entering Supply System not “Over Coded” for Source Inspection – March 31, 1998
- Status Meetings to Defense Reform Task Force – On Going
- Monthly Status Reports Start – February 1998
- Team Final Report May 31, 1999

## **STATUS**

- PAT identified contributors of unnecessary GSI
  - FAR 46.402(e) requires mandatory GSI when higher level quality requirements are contractually invoked
  - FAR 46.402(g) discourages destination acceptance of overseas shipments
    - DDP signed Class Deviation November 7, 1997 removing clauses
- Andersen Consulting was contracted to conduct a six month study to:
  - Study all government steps and costs in the source acceptance process, compare to alternatives
  - Develop model for comparative analysis; use in identifying alternative methods
  - Develop risk management models; determine level of vendor oversight
  - Identify methods of changing oversight levels with changing risk
  - Identify skills/levels needed for people performing oversight
- Study on Target - Final results will be briefed to PAT on March 24, 1998
- DCMC Issued information memo 97-039, target audience all DCMC personnel
  - Stressed DCMC role in being "part of the solution"
- DCMC Issued information memo 98-26, , target audience all DCMC personnel
  - Informed all personnel of the approved class deviation 97-o0011
- Provided status and information briefings as required

- Mr. Longuemare, acting OUSD(A&T) signed PATs letter on September 24, 1997 directing the Military Departments and DoD Agencies to review all GSI supply items to be bought in FY 98 and 99
  - Targets: 30% reviewed 31 Mar 98, 60% 31 Dec 98, 100% 31 Mar 99

### **Status of GSI Supply Item Review**

#### **ARMY:**

- Each Major Subordinate Command (buying activity) has developed a plan to implement a review of GSI
- The first status report will be due the first week of April 98
- AMC will actively support the Major Subordinate Commands in the conduct of their reviews and work through issues as they arise

#### **Navy:**

- The official numbers for GSI deleted/reviewed will be provided in the quarterly report due April 98
- NAVICP has revised existing policies and procedures for invoking GSI. This includes submission of a change request to revise the provisioning system for ships/submarines to limit GSI to only Level 1/subsafe.
- NAVICP has begun development of a one-hour training course to update equipment specialists on the recent class deviation to FAR 46.402. Target date for completion is 8 Feb 98.
- GSI FAR policy changes have been distributed to all buyers effected by the deviation to FAR 46.402
- NAVSUP promulgated policy letter dated 22 Jan 98 to all contracting personnel under NAVSUP requiring use of GSI IAW FAR 46.402
- NAVICP is reviewing conditions for use of Fast Payment procedures to determine impact on GSI and possible need for deviation to Fast Payment threshold, currently at 25K
- NAVICP has completed review of 17% of supply items projected for procurement in FY98/99 which require GSI

#### **Marine Corps:**

- Marine Corps is in the process of finding the proper representatives to participate in the IPT for Product and Manufacturing Assurance under MRM #10
  - An e-mail was sent out Jan 30, 98 from our Material Policy Section requesting assistance from our field office. As of this date no responses have been received
- The representatives currently on the IPT are from the Contracting Community and cannot provide the proper information concerning the Marine Corps policy on Government Source Inspection as it relates to our NSN's. For the record Contracting representatives were sent in the beginning because of the association of this effort with the Government-wide Commercial Purchase Card.

**AIR FORCE:**

- HQ AFMC/ENPP assumed duties as AF representative to the Government Source Inspection PAT. We anticipate continued support PAT meetings and briefings to DoD components, as required.
- HQ AFMC/ENPP personnel accumulated responses to AFMC Commander, Gen Babbitt's request for a review of GSI contractual requirements in the field. Responses were from the individual Product and Logistics Centers. Due to the sheer enormity of reviewing ALL current contractual vehicles for GSI requirements, the majority of the responses stated that the requirement for GSI on AF contracts will occur as part of the procurement process for a contract renewal, contract extension, contract modification or new contract for a specific product. We expect quarterly reports from the field on their progress in this area that we will provide to the PAT team as they become available.
- AFMC/ENPP personnel will be visiting two logistics centers to understand the current procedures and problems with GSI at those locations. We will report our findings at the next PAT meeting currently scheduled for 5 Mar 98.

**DEFENSE LOGISTIC SUPPORT COMMAND:****DCSR – Richmond:**

- DSCR Source Inspection Policy & Review Plans Written to Accommodate MRM#10
- Ten Product Centers Received Extensive Training on SI Review Procedures
- Buys Flagged To Alert QAS To Source Inspection Review Requirement
- New SAMMS QA Tables Used In CTDF To Validate Source Inspection Review
- SAMMS Program Being Written To Allow Reporting OF QA Tables In Database Format / Available March 1998
- Conducting Weekly Source Inspection Review Audits For Compliance With New QA Tables
- 29 JAN 98 Audit / 100% DSCR Rating For 3rd Straight Week

**DSCP - Philadelphia (OLD DPSC):**

- Medical:
  - A total of 5, 996 NSNs were converted destination inspection (to a PIC Code of "2") for the medical Directorate in response to the tasking generated by HQ DLA as a result of an inquiry from the Under Secretary of Defense (USOD) regarding numerous source inspection items.
  - 5, 504 NSNs were converted from source inspection (see note below) (a code of "D") to destination inspection (a PIC Code of "2") (since they are commercial items). NOTE: Code D by definition in DLAM 4605.4, Users Manual for Contract Technical Data File is: "Sensitive item, failure can have adverse effect in medical practice. Code D items will be inspected at origin when total value exceeds \$500."
  - 492 NSNs were converted from source inspection (a PIC Code of "1") to destination inspection (a PIC Code of "2").



- In response to the tasking the Medical Directorate has completed this tasking ahead of the stipulated schedule. I recommended all remaining NSNs remain coded as source inspection (a PIC Code of "1") and to waive the source inspection requirement (on a case by case basis) upon each new acquisition if destination inspection is determined to be more appropriate in an effort to preserve the source inspection requirement for these items.
- DSCP published policy memorandum to implement MRM # 10 Source Acceptance and NSNs review/status reporting.
- Clothing & Textiles Directorate:
  - The Directorate published updated version of DPSC Manual 4155.3, Quality Systems Requirements, November 3, 1997. It contains numerous changes resulting from substantial changes in business practices. A joint DSCP/DCMC training class being arranged to communicate the new requirements/guidelines to all the DCMC field offices
  - Currently identifying number of NSNs requiring review from status reports from SAMMS.
- Subsistence Directorate: There is 1,094 subsistence NSNs that are designated origin inspection that must be canceled.

#### **DSCP- Philadelphia (OLD DISC):**

- The following is a proposed approach to validate the application of source inspection for items managed by DISC. It was developed on the basis of establishing a scenario addressing the items managed on a large population basis rather than an NSN-by-NSN approach that would most likely be very impractical. Of importance here, is to recognize, even if source inspection is removed on large groups of NSNs, they can be reinstated on any NSN if circumstances warrant.
- Accordingly, removal of source inspection from the following items is proposed:
  - Items without any weapons system designation
  - Items falling under qualification programs (QPLs, QSLM, QSLD)
  - Items having weapons system designations, but are clearly commercial in application (tacks, nails, staples, etc.). The Customer Support Directorates will generate a list of items currently containing source inspection for review. This list will be sorted by name along with a recommendation as to whether or not source inspection is to be maintained.
  - All remaining items will be subject to source inspection review at the time the next recommended buy occurs

## **DSCC-Columbus:**

### **Origin Inspection Reduction Data**

- The following data represents the first quarter of FY98. All NSNs with a Place of Inspection of Origin; i, e, critical coded items and those having technical data sufficient to require origin inspection were reviewed. DSCC reviewed a total of 7,184 items resulting in 1,905 (27%) being changed from origin to destination:

#### **FY98**

##### **First Qt**

#### **Construction**

Number Unchanged	4,406
Number Changed	729
% Changed to Destination	14.2%
Total Reviewed	5,135

#### **Electronics**

Number Unchanged	873
Numbered Changed	1,176
% Changed to Destination	57.4%
Total Reviewed	2,049

#### **DSCC Totals**

Number Unchanged	5,279
Number Changed	1,905
% Changed to Destination	26.5%
Total Reviewed	7,184

- DSCC developed and implemented an Integrated Policy Memorandum (IPM) to provide information, guidance, and policies regarding the responsibilities for implementation of the DSCC Origin Inspection Validation Plan (OIVP). The Plan was developed to ensure all DSCC source inspection contract requirements are reviewed during FY98 and FY99, and all unnecessary origin inspection changed to destination. This procedure applies to the DSCC Quality Assurance Specialist (QAS) responsible for establishing the place of inspection (PIC) for Government contract quality assurance at source or destination.
- DSCC Quality Forum Presentation Oct 23, 1997 - QASs instructed on background of MRM #10 Initiative and method of for reviewing all items to be procured during FY98 and FY99.

**Management Reform Memorandum # 12 (MRM #12)**  
**Maintenance, Repair & Operations (MRO) Program**  
**Monthly Report**  
**PERIOD ENDING JANUARY 30, 1998**

**BACKGROUND**

- The MRO Program is designed to provide total logistical supply support to DOD facility maintenance activities. Typical items include: electrical, plumbing, heating, ventilation, air conditioning, lumber, tools, hardware and miscellaneous building supplies. Regional/zone contracts are being awarded to provide prime vendor type support to customers who agree to participate in the program. Program expected outcomes include infrastructure savings, inventory reductions and leveraged buying.

**STATUS**

- Regional awards as follows:  
Southeast, Southwest, Hawaii-Awarded  
Northeast, Northwest, South Central, North Central, Alaska,-Target award February 1998  
Europe, Pacific - Target award December 1998
- Customer Participation as follows:  
Active Participating Sites-12  
Committed Sites (not yet deployed)-26  
Target Sites-29
- Contract(s) performance metrics being tracked and refined.
  - Initial prototype site program evaluation study due June 1998.
- Dr. John J. Hamre received program status briefing February 2, 1998. Dr. Hamre continues to support the MRO program and encourages Military Service participation.

**MAJOR MILESTONES**

- Nationwide contract coverage by June 1998.
- Overseas contract coverage by June 1999.

**ACTION OFFICER/OFFICE SYMBOL/TELEPHONE**

Paul Sabatini, DLSC-POA, 767-3760 -- Gary Shute, DISC-W, DSN: 442-2383